

Q4 2022 Capri Holdings Ltd Earnings Call - Final

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Body

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Presentation

OPERATOR: Greetings, and welcome to the Capri Holdings Limited Fourth Quarter Fiscal 2022 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Jennifer Davis, Vice President, Investor Relations for Capri Holdings Limited. Thank you. You may begin.

JENNIFER MICHELLE DAVIS, VP OF IR, CAPRI HOLDINGS LIMITED: Good morning, everyone, and thank you for joining us on Capri Holdings Limited's Fourth Quarter Fiscal 2022 Conference Call. With me this morning are Chairman and Chief Executive Officer, John Idol; and Chief Financial and Chief Operating Officer, Tom Edwards. Before we begin, let me remind you that certain statements made on today's call may constitute forward-looking statements, which are subject to risks and uncertainties that could cause actual results to differ from those we expect.

Those risks and uncertainties are described in today's press release and in the company's SEC filings, which are available on the company's website. Investors should not assume that the statements made during this call will remain operative at a later time and the company undertakes no obligation to update any information discussed on the call.

In addition, certain financial information discussed today will be presented on a non-GAAP basis. These non-GAAP measures exclude certain costs associated with COVID-19-related charges, the war in Ukraine, charitable donations, ERP implementation cost to pre-transformation costs, impairment charges, restructuring and other charges.

Unless otherwise noted, all financial information on today's call will be presented on a non-GAAP basis. To view the corresponding GAAP measures and related reconciliations, please view the earnings release posted to our website earlier today at capriholdings.com.

Now I would like to turn the call over to Mr. John Idol, Chairman and Chief Executive Officer.

JOHN D. IDOL, CHAIRMAN & CEO, CAPRI HOLDINGS LIMITED: Thank you, Jennifer. Good morning, everyone. Looking back on fiscal 2022. I'm proud of the progress we made across all our luxury houses. Our 3 powerful brands: Versace, Jimmy Choo and Michael Kors, continue to resonate with consumers as evidenced by the 11.5 million new consumers added across our databases over the last year.

Revenue and earnings results significantly exceeded our original expectations. In fact, we achieved the highest revenue, gross margin and earnings per share in the company's history. Our ability to deliver record results while navigating the challenges of an unprecedented global pandemic are a testament to the strength of our brands and the success of our strategic growth initiatives.

Most importantly, we would not have been able to achieve these results, if not for the hard work, dedication and resiliency of our teams across the globe. Before turning to our fourth quarter results, I would like to take a moment to recognize all those impacted by the war in Ukraine. Our thoughts and prayers go out to the millions who have been affected by these tragic events.

We have made significant charitable donations to help with the humanitarian relief efforts, including \$250,000 to the UN Crisis Relief Fund and EUR 1 million worth of essential clothing from Versace, Jimmy Choo and Michael Kors. We are hopeful for a peaceful resolution soon.

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Now turning to fourth quarter performance. We were pleased that revenue, operating margin and earnings per share, all exceeded our expectations. The company achieved these results despite ongoing supply chain challenges, COVID-related restrictions in China and the war in Ukraine.

Total revenue in the fourth quarter increased 25%, reflecting better-than-anticipated results at all 3 brands. Gross margin continued to expand even with higher supply chain costs. Operating margin of 14.2% was above our expectations. As a result, earnings per share of \$1.02 was better than anticipated.

Looking at group revenue trends by geography. In the Americas, revenue growth continued to exceed our expectations, increasing 30% and would have been greater, if not for inventory constraints. In EMEA, revenue increased 33%, also above our expectations, with strong growth across all houses driven by robust domestic consumer demand despite certain regions being impacted by the war in Ukraine.

In Asia, revenue increased 2%, reflecting improving trends in Japan and Southeast Asia. This was partially offset by a decline in Mainland China. In China, sales trends in the beginning of the quarter were strong, but declined as new COVID-related restrictions and lockdowns expanded. By the end of the quarter, approximately 40% of our stores were closed or operating hours were reduced.

Now turning to performance by brand. Starting with Versace. We were pleased with the results, which were ahead of our expectations. For fiscal 2022, Versace revenue exceeded \$1 billion, driven by record fourth quarter results. Fourth quarter revenue increased 34%, demonstrating the momentum of the brand and the success of our strategic growth initiatives.

We saw strength across all product categories as Versace's bold and fearless designs were positively received by consumers. In women's accessories, which are a key component of our growth strategy, sales increased approximately 75% versus prior year. New silhouettes and fresh pastel shades in La Medusa performed exceptionally well. With La Medusa, Greca and Virtus, we are making significant progress in our goal to expand accessories revenue to \$1 billion over time.

Footwear also performed well as we continued to build our core offering focused on our iconic brand codes. In the fourth quarter, women's footwear sales increased approximately 70% and as we gain authority in women's luxury fashion footwear. Dress styles performed exceptionally well, increasing over 100% fashion footwear. as consumers responded positively to styles featuring a range of Versace codes, including Greca and Medusa.

Additionally, we saw strength in men's and women's ready-to-wear with sales up double digits. The resort collection performed well as consumers embrace new prints and the La Greca signature pattern in Pastel tones. We also continued to see strong performance in our expanded core lines, which incorporate iconic house codes to broaden Versace reach.

In terms of brand awareness and consumer engagement, Versace's spring summer 2022 women's campaign featured long-time friends of the house and supermodel sisters, Gigi and Bella Hadid with an appearance from Donatella herself. The family bond between Gigi and Bella and their close relationship with Donatella was the core concept of the campaign. Versace also launched a dedicated men's campaign featuring Colombian-born, singer songwriter Reiner, Maluma, another friend of Donatella and the House.

In China, Versace launched a Lunar New Year campaign across all channels kicking off the year of the Tiger. At the center of the Festive New Year campaign was a bold dedicated capsule collection. The campaign garnered approximately 50 million impressions across social media channels. During the quarter, Versace continued to adorn many of the world's most famous celebrities at high-profile events, including the Oscars and the Grammy's.

The atelier dressed Lily James, Miley Cyrus, Dua Lipa, Doga Cat and Dwyane Wade, to name a few. During Milan Fashion Week, Versace was one of the most engaged Italian fashion brands on social media. In the women's fall/winter 2022 show, Donatella launched our newest accessories collection, Greca Goddess. We anticipate this new collection will further amplify our growing accessories business. The fashion show generated 48 million impressions globally.

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In addition, Versace revealed the fall/winter 2022 men's runway collection video. The polished tailored collection was a view into the new men's image envisioned by Donatella Versace. The video generated 36 million impressions globally. These powerful initiatives, among others, helped to drive a 35% year-over-year increase in Versace's global database. Additionally, this morning, we announced the formation of the Versace Foundation.

Our company pledged \$10 million to promote the advancement of equality, wellness and safety for the LGBTQIA+ community. Versace has always been known for its inclusivity. This is another important step in Capri Holdings' support of diversity and inclusion in the world. Overall, Versace's fourth quarter and full year results speak to the strength of the brand and the success of our strategic initiatives.

Full year revenue of over \$1 billion increased significantly faster than we anticipated to the highest level in Versace's history. At the same time, full year operating margin of 17% was meaningfully higher and above our original forecast. These results reinforce our confidence in our ability to grow the house to at least \$2 billion in revenue over time.

Moving to Jimmy Choo. We achieved record fourth quarter and fiscal year sales levels. Fourth quarter revenue results were ahead of our expectations, increasing 26% and as we continue to execute on our strategic initiatives to expand our accessories revenue and capitalize on our glamorous footwear opportunities.

In accessories, we were pleased with our progress as fourth quarter revenue increased strong double digits, driven by the continued success of our Signature Varen and Bonbon Group. The Varen handbag family expanded with a multifunctional tote and structured shoulder bag. In fact, the new quad shoulder bag was a top seller in the fourth quarter.

Turning to footwear. Sales increased strong double digits. Glamor performed well, reflecting the continued success in dress footwear sales, driven by a return to office and social activities. We were also pleased that bridal sales were more than doubled prior year as this is often the first touch point to the brand.

In casual sandals, the epitome of easy elegance performed exceptionally well with retail sales up over 100% compared to prior year. Footwear also increased significantly, driven in part by the launch of our new biker inspired Yael rain boots in the sustainable rubber and bold colors. And we continue to see growth in sneakers, and positive consumer reaction to our new COSMOS featuring a cage construction inspired by our signature strappy sandals. Finally, as we reinforce our lifestyle positioning, we launched our first jewelry collection during the quarter.

The collection, which is inspired by Jimmy Choo's Design signatures, Pearl, Crystal and Monogram embodies timeless glamor and significantly outperformed our expectations. Now turning to brand awareness and consumer engagement. For spring, our consumer communication campaign once again featured Hailey Bieber, who is the embodiment of the modern glamor that defines Jimmy Choo. The Spring 2022 Time to Dare campaign celebrates the glamorous and daring soul of the brand, emphasizing new season styles. Jimmy Choo also continued to drive localized marketing with the appointment of singer and actress, Son Na-eun as its first ambassador for Korea. Through her Instagram posts and media coverage, the campaign reached over 76 million consumers.

In February, Jimmy Choo launched an incredibly successful collaboration with MUGLER. The partnership fused 2 heritages that were founded on visions of powerful and glamorous femininity. In addition to solid sell-throughs, the collaboration generated strong engagement across social media, including over 22 million impressions. Jimmy Choo's presence at high-profile red carpet events, including the Oscars and Grammys was also expensive.

Some of the many celebrities wearing Jimmy Choo included Beyonce, Lady Gaga, Selena Gomez, Emma Watson, Zendaya and Chris (inaudible). These activities helped contribute to a 30% year-over-year increase in Jimmy Choo's global consumer database. Overall, Jimmy Choo's strong revenue growth and operating margin expansion in the fourth quarter and full year reinforces our confidence in the luxury house's future potential.

Full year revenue of \$613 million rebounded much faster than we anticipated to the highest level in Jimmy Choo's history. Likewise, full year operating margin of 2.1% was significantly above our expectations. We are encouraged by the progress we are making towards our goal of growing revenue at Jimmy Choo to \$1 billion over time.

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Now turning to Michael Kors. Results were ahead of our expectations with revenues increasing 22% as we continue to elevate our product and the brand. During the quarter, global retail AURs increased in the double digits versus prior year. Signature remains a core growth strategy and continues to drive higher AURs and margins.

In the quarter, Signature represented 45% of the assortment across all categories compared to approximately 35% last year. Accessories sales in our retail channel increased double digits globally as consumers responded to our luxury leather and graphic hardware as well as fresh updates to our signature styles.

In Signature, iconic prints updated in soft spring colors performed exceptionally well. Consumers also responded to new techniques, including dual scale and color combinations. We remain focused on our key icons, including Carley, Greenwich, Soho and Hamilton, while introducing new styles such as Marilyn, which is off to a phenomenal start.

Moving to footwear. We saw strong performance in sandals, with consumers responding to both casual and dress styles. Statements at sandals featuring MK hardware performed exceptionally well. Additionally, we continue to see strength in fashion active, driven by iconic signature prints.

Women's ready-to-wear also performed well as consumers responded to the laid-back glamor of the spring assortment, including signature prints and [knit] dresses. Men's remains one of the best performing categories in retail with strong double-digit growth driven by signature accessories.

Now turning to brand awareness and consumer engagement. MICHAEL Spring 2022 campaigns reflect his love of New York City as well as his passion for travel. The Michael Kors collection campaign featuring Kendall Jenner, portrays the unique juxtaposition of the strength and determination of New York with the romance that the city inspires. Meanwhile, the MICHAEL Michael Kors spring campaign focuses on the Allure of sophisticated Wonderlust and is set in St. Barts, the celebrated playground of the international Jet Set.

In January, Michael Kors announced its first China watch and jewelry ambassador actress, Bai Lu, to help build category equity in the market. The announcement, which was made on Michael Kors and Bai Lu's social channels gained approximately 30 million impressions. During New York Fashion Week, Michael Kors was the most engaged fashion brand on social media. Said at the iconic music venue Terminal 5 in Manhattan. The show celebrated the allure and energy of New York City at night. This was the first time Michael's has shown his collection to a live audience at night.

The collection, the venue and the musical performance by Grammy Award-winning artist, Miguel, we're all about celebrating a fabulous night out. The show generated 38 million views across social media platforms globally. This helped contribute to an 18% year-over-year increase in Michael Kors global database demonstrating the continued strength and desirability of the Michael Kors brand. Overall, we remain optimistic about the future growth of Michael Kors.

Full year revenue of \$3.95 billion rebounded much faster than we anticipated. Likewise, full year operating margin of 25.4% was above our original expectation. The strategies we put in place prior to the pandemic have been generating strong consumer demand as well as attracting new and younger consumers. At the same time, they enabled us to drive higher profitability, even with the greater-than-anticipated supply chain headwinds in the back half of the year.

In conclusion, for fiscal '22, we are pleased to have delivered the highest revenue, gross margin and earnings per share in the company's history. Additionally, we generated strong free cash flow and returned \$650 million to shareholders. This performance reflects the strength of our fashion luxury houses and execution of our strategic initiatives. Looking forward, in fiscal '23, we expect to achieve another year of record revenue and earnings per share growth.

Long term, we are confident in our ability to resume double-digit revenue increases as we move beyond the impact of current macro headwinds. The power of Versace, Jimmy Choo and Michael Kors, as well as the proven resilience of the luxury market, reinforces our optimism for the future and our ability to achieve \$7 billion in revenue

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and a 20% operating margin over time. We look forward to sharing more of our future outlook with you at our upcoming Investor Day on July 20. Now let me turn the call over to Tom.

THOMAS J. EDWARDS, EXECUTIVE VP, CFO & COO, CAPRI HOLDINGS LIMITED: Thank you, John, and good morning, everyone. Starting with fourth quarter results. Revenue of \$1.49 billion increased 25% versus prior year or 28% in constant currency, exceeding our expectations. On a 13-week basis, revenue increased 19%. Performance was driven by better-than-anticipated results across all 3 of our luxury houses.

Net income was \$152 million, resulting in diluted earnings per share of \$1.02. This was above our expectations, reflecting better-than-anticipated revenue and operating margin as well as a lower tax rate.

Turning to revenue performance by brand. Versace revenue of \$315 million increased 34% versus prior year or 44% in constant currency, which was above our expectations. Global sales in our retail channel increased over 20%, with double-digit increases in both e-commerce and store sales. By geography, total revenue in the Americas increased 81% and revenue in EMEA increased 30%. Revenue in Asia decreased 5%, reflecting strong double-digit increases in Japan and Southeast Asia, offset by a decline in China.

Versace ended March with a global luxury fleet of 209 retail stores, a net decrease of 1 from prior year. For Jimmy Choo, revenue of \$156 million increased 26% to prior year or 29% in constant currency, above our expectations. On a 13-week basis, revenue increased 19%. Global sales in our retail channel increased approximately 40% with strong double-digit increases in both e-commerce and store sales.

By geography, total revenue in the Americas increased 55%, revenue in EMEA increased 23%, and revenue in Asia increased 10%. Jimmy Choo ended the quarter with a global fleet of 237 retail stores, a net increase of 10 from prior year. At Michael Kors, revenue of \$1.02 billion increased 22% last year or 24% in constant currency, above our expectations.

On a 13-week basis, revenue increased 14%. Similar to the last several quarters, revenue growth would have been even greater if we had more product available to meet consumer demand. We estimate inventory constraints had a mid-single-digit impact on Michael Kors' fourth quarter growth rate. Global sales in our retail channel increased in the high teens with double-digit increases in both e-commerce and store sales.

Wholesale revenue increased over prior year but remains well below historic levels, in line with our strategic intent to have a smaller wholesale business and improve profitability. By geography, total Michael Kors revenue in the Americas increased 22%, revenue in EMEA increased 37% and revenue in Asia increased 4%. Michael Kors ended the quarter with a global fleet of 825 retail stores, a net increase of 5 from prior year.

Now looking at total company margin performance. Gross margin expanded 20 basis points to 63.7%. This improvement versus prior year reflected the strong ongoing benefits of our strategic initiatives, partially offset by higher supply chain costs. Operating expense as a percent of revenue was 49.5% compared to 51.5% last year. This reflects expense leverage on higher revenue.

On an absolute basis, operating expense increased approximately 20% or \$120 million versus prior year. This increase primarily reflected higher variable expenses, reinvestments in our business and expenses associated with the 53rd week. As a result, total company operating margin expanded 230 basis points to 14.2% and was ahead of our expectations.

By brand, Versace operating margin expanded 360 basis points to 15.9%. Jimmy Choo operating margin improved 490 basis points to negative 9.6%. And Michael Kors operating margin expanded 10 basis points to 20.6%. Our tax rate for the quarter was 28.3%. This was lower than our expectations, primarily reflecting the release of valuation allowances related to Versace.

Now turning to balance sheet and cash flow. We ended the quarter with cash of approximately \$170 million and debt of \$1.16 billion, resulting in net debt of approximately \$1 billion. Total liquidity at the end of the quarter was approximately \$1 billion. As part of our ongoing commitment to return cash to shareholders, we repurchased \$300

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million of shares in the quarter. Additionally, our Board has authorized a new \$1 billion share repurchase program, demonstrating the strength of our free cash flow generation and the balance sheet.

Capital expenditures for the year were \$153 million and were primarily spent on new store development, renovations, IT and e-commerce enhancements. Looking at inventory, we ended the quarter with \$1.1 billion, a 49% increase over a historically low level last year and consistent with our expectations. Relative to pre-COVID levels, fourth quarter inventory increased 33%, while sales grew 25%. Given the ongoing extended transportation delays, we have implemented new programs to receive seasonal merchandise earlier as well as hold more core inventory. As a result, we expect inventory to increase by a similar amount in the first quarter versus prior year. We expect levels will moderate sequentially and be back in balance by the end of the year.

Now turning to fiscal 2023 guidance. Overall, we remain very pleased with the strength across our 3 luxury houses, particularly in light of supply chain challenges and macro headwinds. Since our last earnings call, the U.S. dollar has further strengthened and COVID-related restrictions in China have expanded. Therefore, we are updating our fiscal '23 outlook.

Starting with revenue. For fiscal '23, we now forecast pre holdings revenue of approximately \$5.95 billion. This represents an approximate 5% increase over prior year on a reported basis. While on a constant currency basis, revenue is expected to increase approximately 10%. Relative to our prior guidance, we anticipate the stronger dollar will negatively impact reported revenue by approximately \$100 million. Additionally, we now expect the expanded COVID-related restrictions in China will negatively impact revenue by approximately \$50 million.

As a reminder, our guidance previously incorporated the impact of the war in Ukraine, which we estimated represented approximately \$100 million in fiscal '23. Looking at full year revenue guidance by brand. We now assume Versace revenue of approximately \$1.225 billion, increasing approximately 13% on a reported basis and approximately 23% in constant currency; Jimmy Choo revenue of approximately \$650 million, increasing approximately 6% on a reported basis and approximately 9% in constant currency; and Michael Kors revenue of approximately \$4.075 billion, increasing approximately 3% on a reported basis and approximately 6% in constant currency.

For the year, we now expect gross margin will be approximately flat to fiscal '22. We continue to anticipate ongoing benefits from our strategic initiatives across all 3 houses. This positive underlying margin strength is expected to be offset by lower sales in China, which is a higher-margin region and the negative impact of foreign currency. In addition, we expect transportation costs to remain elevated through the year. As a result, we now expect a full year operating margin of approximately 18%.

For Versace, we now anticipate an operating margin of approximately 16%; for Jimmy Choo, we now expect an operating margin of approximately 5%; And for Michael Kors, we now anticipate an operating margin of approximately 24%. Turning to our expectations around certain nonoperating items. We anticipate net interest income of approximately \$35 million, an effective tax rate of approximately 11%.

With our new \$1 billion share repurchase authorization, we are now incorporating share repurchases in our guidance and anticipate weighted average shares outstanding of 144 million. As a result, we now expect to generate diluted earnings per share of approximately \$6.85 for fiscal '23, representing double-digit growth.

Turning to capital expenditures. We anticipate spending approximately \$300 million, which includes store openings and remodels as well as IT expenditures, including investments in our digital platforms.

Turning to first quarter guidance. We now anticipate total company revenue of approximately \$1.3 billion. This represents an approximate 4% increase versus prior year on a reported basis and an approximate 9% increase in constant currency. Additionally, we now anticipate revenue in Mainland China will be down approximately 40% year-over-year in the fiscal first quarter before sequentially improving in the second quarter to down approximately 20%.

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For first quarter revenue by brand, we forecast Versace revenue of approximately \$265 million, increasing approximately 11% on a reported basis and approximately 20% in constant currency; Jimmy Choo revenue of approximately \$155 million, increasing approximately 9% on a reported basis and 13% in constant currency; and Michael Kors revenue of approximately \$880 million, increasing approximately 1% on a reported basis and approximately 5% in constant currency.

Looking at operating margin. As a reminder, we anticipate supply chain costs will be highest year-over-year in the first quarter, resulting in gross margin contraction. Additionally, we now forecast a greater FX headwind as well as lower revenue from China, which is a structurally higher margin region. Therefore, we now expect first quarter operating margin will be approximately 16.5%.

In terms of operating margin by brand. For Versace, we anticipate an operating margin in the low double digits; for Jimmy Choo, we expect an operating margin in the mid-single digits; and for Michael Kors, we anticipate an operating margin in the low to mid-20% range. Turning to our expectations around certain nonoperating items. We forecast net interest income of approximately \$9 million, an effective tax rate of approximately 12% and weighted average shares outstanding of 146 million. As a result, we now expect diluted earnings per share of approximately \$1.35.

In conclusion, we were pleased to achieve record revenue, gross margin and earnings per share in fiscal '22. These results demonstrate the strength of Capri Holdings brand and the execution of our strategic initiatives. Looking forward, in fiscal '23, we expect to deliver another year of record revenue and earnings per share despite ongoing supply chain challenges, foreign exchange headwinds, COVID-related restrictions in China and the war in Ukraine.

Longer term, we are confident in our ability to resume double-digit revenue increases as we move beyond the impact of current macro headwinds. The power of Versace, Jimmy Choo and Michael Kors, as well as the proven resilience of the luxury market, reinforce our optimism for the future and our ability to achieve \$7 billion in revenue and a 20% operating margin over time. Now we will open up the line for questions.

Questions and Answers

OPERATOR: (Operator Instructions) Our first question comes from the line of Ike Boruchow with Wells Fargo.

IRWIN BERNARD BORUCHOW, MD AND SENIOR SPECIALTY RETAIL ANALYST, WELLS FARGO SECURITIES, LLC, RESEARCH DIVISION: Congrats on managing through the macro really well. I guess, John, would love some of your perspective and context around what you're seeing in Asia right now? I think you gave some guidance on what's implied for the region in Q1, but maybe by brand because I know your exposures are different, but just kind of what you're seeing in real time in Mainland China? And then what your expectation is as you move into Q2 and beyond.

JOHN D. IDOL: Ike, thank you for the questions. Just to give you a little flavor around the world for the consumer. Number one, the North American consumer as you can see from our results, remains quite strong and robust I think you can also see across all 3 brands, our databases had double-digit growth, which we think is a very good indicator for health of these luxury houses as well as the consumer desire for our products.

So we're feeling quite optimistic about the North American consumer. Obviously, you're all reading a lot of things in the paper about various impacts that may be facing the consumer as we go forward as it relates to inflation, et cetera, and we'll have to see how that plays out. But for the moment, we feel quite strong about all 3 of the luxury houses in North America through the balance of this fiscal year.

Regarding Europe. We see a very strong rebound over the last 2 quarters. As truly, I would say, most, if not all, the markets are fully reopened at this point and the consumer is really reacting positively, both from going out for social occasions as well as there is a go back -- there is a movement of going back to work and that bodes well for addressing up our brands lean into those different areas. So we're feeling very good about that.

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As you know, the war in Ukraine has impacted our business in Russia. We stopped shipping product there. And there are many consumers who would have normally traveled from region to purchase in other markets. So we've removed all of that revenue from our guidance. And so we see that as an impact to the business in Europe. And I'd say that, for the moment, is the greatest headwind that we're seeing there. Again, the consumer is very robust.

In Asia, the lockdown, while Shanghai is coming out of lockdown and certain areas of Beijing are meant to come out shortly. We think that is going to be a longer-term rebound. Again, when the first lockdown and reopening happening, there was a lot of term as revenge buying. We're not exactly sure how that's going to play out right now. So we gave in our prepared remarks a guidance that we think for this current upcoming first quarter. Our business in Asia will be down about 40%. And we think -- and again, this is just almost a guess in Q2, it will be down around 20%.

I would say that all of the brands are pretty much feeling it equally across the board. You'll see Versace showing up, reflecting a bit higher, and that is because China as it relates to its proportion to the total region is much higher. We have a very underdeveloped -- almost nonexistent business in Japan with Versace today, and that's going to really provide a big opportunity for us, and we'll be opening a brand-new flagship in Ginza for Versace here in a few months. And so we're quite excited about that. And that market literally is hundreds of millions of dollars of opportunity for us for Versace.

Additionally, Versace, we really were repositioning the brand in China, probably of all the markets that really needed the greatest amount of effort. China was the #1 where the stores and the store fleet needed to be renovated very, very badly. And the brand positioning needed to be really reset. We have a new President in that role a little over a year, a gentleman by the name of Patrick Lee, who previously helped build and establish the Michael Kors business. Prior to that, he was at Dior. So he's very experienced.

We moved our offices from Hong Kong to Shanghai. And there's an enormous amount of initiatives planned -- some of those had to be pushed back a little bit by the recent shutdowns. We have a new flagship opening in Shanghai in probably September now, maybe August. So there's a lot of activity happening in the area. And as you know, for all 3 of our luxury houses, China and Asia in total represent an enormous opportunity for growth.

So we are still very confident that once -- and I would say, over the next 2 quarters, some of this lockdown gets behind us, that we will resume very steady growth in the region. And that it's an enormous consumer and all of our competitors have very, very large businesses there, and we feel very confident that we'll be able to grow. So thank you for that question, Ike.

OPERATOR: Our next question comes from the line of Omar Saad with Evercore ISI.

OMAR REGIS SAAD, SENIOR MD AND HEAD OF SOFTLINES, LUXURY & DEPARTMENT STORES TEAM, EVERCORE ISI INSTITUTIONAL EQUITIES, RESEARCH DIVISION: I wanted to ask my question about the levels of promotional discipline. I mean your ASP trends, your margins are still very strong in the Michael Kors brand. Are you seeing promotional -- any signs of promotions in the marketplace out there? Maybe kind of reiterate what your strategy is around pricing and promotions given this kind of evolving macro environment?

And then just a quick clarification, John, on China. Did you say you expect China to continue to be weak, but you kind of indicated that it could be a bit of a guess, maybe the Chinese customer comes back booming after the lockdowns reopened, but maybe not. And you guys sounds like you're taking a more cautious approach. Just want to clarify that, too.

JOHN D. IDOL: Sure. First off, Omar, thanks for the question. So on the promotional front, I think we've been quite emphatic and we remain emphatic that we've reduced promotional activity across all brands globally, and this was all set prior to the pandemic. And that's been very, very successful for us, and Versace and Jimmy Choo are really set and we're in a great place. So whatever activities were taking place before that we didn't think were healthy for the business are now completely gone.

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As it relates to Michael Kors, we stepped that down before, again, beginning before the pandemic and then through the pandemic. And we have made the decision, we're going to continue to step it down further and continue to raise prices. As we move the Michael Kors brand truly more upmarket, and you're going to start to see that. We have some other announcements that we'll talk about during -- talk at Investor Day, which are going to further reinforce that. So whatever the North American competitors to Michael Kors are doing, we've got our own observations. We don't intend on participating. We intend on holding where we are, we think our brand has extraordinary value, and we continue to want to reinforce that. And so we've come this far, we're not looking to turn back.

I also want to address this, Tom did in his opening remarks regarding our inventories. As you know, our inventories are on an elevated level but that is by design and by plan. So we did 2 things. First thing we did was we brought in our core basis products mainly in accessories and in footwear. And again mainly, essentially for both Michael Kors and Jimmy Choo, and to a lesser degree, Versace. We brought them in much earlier than we ever have. So we have larger weeks of supply and that's by demand. As you've hear from every call, we keep saying, "We could have done more business had we have the inventory."

Well, the first place that we've been out of inventory. Almost for 2 years is on our core replenishment product. And so we think we're going to be in really good shape now beginning this quarter. And the second thing we've done is we have changed our design calendar. We're actually going to change it one more time. And particularly, again, in Michael Kors, we are bringing in our fashion products earlier, and that is, again, to mitigate the supply chain issues while they have improved. They are certainly nowhere near pre-COVID levels.

And again, with things that are happening in China, things moving around with vessels. And again, China is a very small part of our production. It just impacts transportation totally in the region. So we'd like to take that factor out of one of our concerns. We've said that the cost of our moving freight is still remained at an elevated level, and we actually think that, that could even slightly increase, given fuel surcharges that might take place.

So again, we're trying to just make sure that we can service our consumer and give them the best possible experience. And that is -- as you will see, that will mitigate through the year, and we'll be back on normalized because we'll anniversary once kind of a year comes up, that new process of bringing in our core a bit earlier, a little bit larger and are bringing in our fashion deliveries early. But again, that's all 100% by design.

Secondly, regarding China. Again, yes, you're correct in what you said. We can't tell whether there's going to be some huge pop in the business and whether people are going to run back into shopping malls and shop. I don't know that I'd say we're taking a conservative approach. I think we're taking what we think is a realistic approach. We do think that in the second half of our fiscal year -- and remember our fiscal year ends March 31, we do think that things will return to a normalized basis. Again, but we just can't tell. But we think this is the most prudent way to forecast our business. And again, I think we've been very open with the financial community and showing you how we think the quarters are going to flow because we know how difficult this is for you to understand when there's openings and closings going on. We think it's important that we are as transparent as we possibly can be. So thank you very much for the question, Omar.

OPERATOR: Our next question comes from the line of Kimberly Greenberger with Morgan Stanley.

KIMBERLY CONROY GREENBERGER, MD, MORGAN STANLEY, RESEARCH DIVISION: Okay. Great. John, I wanted to just follow up on your comments on pricing. I know that this is something that you've been working on for the better part of the past year and maybe a little bit longer. Maybe if you could just comment on pricing by brand. It sounds like in your answer to Omar's question that you think there's still a little more pricing opportunity at Michael Kors. So if you could just sort of talk to us about the progress you've made by brand on your pricing initiative and where you still have further to go. And then just to understand or put some numbers around the pricing at the Michael Kors brand specifically. I know revenue grew 35% for the year. I'm just wondering if you could break down the recovery in units sold versus price on the full year basis.

JOHN D. IDOL: Sure, Kimberly. So there's 2 different conversations. I'll start with the Versace and the Jimmy Choo. Jimmy Choo started a little over a year ago. You may recall that we really looked at the competitive luxury

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landscape and Jimmy Choo was "opening price point." And that has just been historical since before we purchased the company. The management team led by Hannah Colman, our in particular, we made the decision that we, quite frankly, were just underpricing the product.

We have taken about 2 very large price increases. We have another 1 coming for the fall season. And that is just to get us to a level where we believe we will sit with the true luxury pricing. We have seen absolutely no pushback from our consumer on that. You can see the Jimmy Choo business is literally on fire at this point. So I think it's been a combination of the great designs led by Sandra Choi, and the teams and the fact that obviously, dress up and having a little more fun with your glamor is back, which all plays right into Jimmy Choo's hands.

And our competitors are all sitting at much higher prices than we are. So I don't think the consumer looks at what we've done and said, "Oh, that's not the right place to be." So that's ongoing. I don't know that there'll be a lot more happening at Jimmy Choo. Maybe there'll be something again more next year, but it won't be large. Versace, we went through the same exact exercise. And as you know, in the real power of luxury brands, prices are rising consistently. But once again, Versace, I would, again, call it almost opening price point to the luxury world. We have moved somewhat and really our first big price increases are coming this fall season. But we think there is absolutely more room to go in Versace.

Again, as the brand continues to get the traction that it's getting, as we have the relevance with the consumer, we definitely think in particular, in accessories, I would say, that there's a tremendous amount, more opportunity. We will do that very strategically, and we will do that as we see product perform and make sure that we really have a foothold with the customer in that category. You saw that we grew accessories by over 75% during the quarter. We grew footwear by 70%. These are enormous increases, and I think it just resonates to our strategic initiatives and it's working at Versace.

And then lastly, on Michael Kors. Again, the luxury market has continued to move up very consistently. Price increases probably happened in the 5% to 7% range and on very expensive products. So the delta between where Michael Kors is and the luxury world continues to widen. So we believe that, that will continue to have a pathway for us to raise prices as we elevate the brand.

To answer your final question, we don't really give out units versus increases. But as we've told you, the AUR has really grown double digit during the year. And part of that's been price increases and quite frankly, part of that's just been much higher full price sell-throughs because we've taken a less promotional attitude posture during the quarter.

So I think, again, we feel that all the strategic initiatives that we've put in place for all the 3 brands are really resonating with the consumer. And again, that real touch point for us is 11.5 million new customers coming into the databases. That's an extraordinary number. And we wouldn't be building those kinds of additional followings if the consumer wasn't really engaged with our brand. Thank you very much, Kimberly for the question.

OPERATOR: Our next question comes from the line of Matthew Boss with JPMorgan.

MATTHEW ROBERT BOSS, MD AND SENIOR ANALYST, JPMORGAN CHASE & CO, RESEARCH DIVISION: Congrats on a nice quarter. So John, having now lapped stimulus and in light of the wallet share shifts across different consumer categories, how are you thinking about growth prospects, maybe in the broader handbags and accessories space structurally relative to pre-pandemic? What are you embedding for travel and tourism this year? And then just on the luxury side, can you just speak or elaborate on the glide path that you're seeing for Versace maybe as it relates to the \$2 billion target and just growth opportunities that you see untapped for that concept?

JOHN D. IDOL: Thank you for that question, Matt. Look, I think in terms of the stimulus and the wallet, I think every company saw a little bit of softness during March, very little bit in the beginning of April, and then things started to come back. So we're seeing business in North America trending very nicely right now. So I don't know how much of that -- obviously, everyone continues to speak about the health of the American consumer and the \$2.5 trillion that's more in savings than it was at this time, prepandemic.

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So all of that, I think, bodes well for us. And I think the thing that bodes the most is the fact that people are going out and they're getting dressed up there they're going back to work. So I think it's really healthy for our accessories business, our footwear business, and we're even seeing it in some of the ready-to-wear business. Our dress business in women's had been very, very challenged during COVID, and that's now coming back to not quite prepandemic levels, but we're getting there.

So what we're seeing is healthy growth. And again, as I said before, Europe is excellent right now. And again, how long will that continue for? We don't know. But certainly, it's giving us a lot of confidence for how we move forward into the future. On the travel front, we still don't believe travel will be back in a significant way until 2020, our fiscal 2024, which is calendar next year, there's going to be obviously a very solid rebound in the North American consumer traveling, but getting the globe moving again, I think, is really something that we think will happen in calendar '23. And again, in Tom's and my prepared remarks, we've said that we believe we will return to double-digit growth revenue-wise, next year.

We would have been there this year, had it not been for the -- in particular, the currency and to a lesser degree, the China situation. But on a constant currency basis, our revenues are doubling -- I'm sorry, are double digit this year. So again, I think even in the face of all these headwinds, we're feeling quite positive about the growth. And if you add on the fact that we lost about \$100 million, \$150 million worth of business in our travel retail around the world, and we see that coming back in calendar '23. We're kind of excited about that, and we think that will be a real positive lift for us.

And then lastly, in terms of luxury and \$2 billion with Versace, we are, again, ahead of where we thought we'd be. And again, you can see that in our revenue results. And you can see the fact that again, it's going to be a very, very strong year for Versace this year even against some very strong currency headwinds. And so we think that we're well on the way to achieving that goal. We're very excited about Emmanuel Gintzburger joining us. He'll be joining us in the middle of September to leave Versace. In the meantime, it's in excellent hands with Cedric Wilmotte, again, an alumni of the Michael Kors team. So we haven't missed a beat at Versace. And again, while we're not prepared to say it exactly, but we don't think \$2 billion is the only number for Versace. We think there's something that could be much bigger than that. And again, you can see that with some of the other names that really are on our level on a global basis. So again, we remain as excited as we have been and really are thrilled about what's happening with the accessories at Versace. Thank you very much, Matt.

OPERATOR: Our next question comes from the line of Brooke Roach with Goldman Sachs.

BROOKE SILER ROACH, RESEARCH ANALYST, GOLDMAN SACHS GROUP, INC., RESEARCH DIVISION: A lot of ground has been covered, but I would love to hear a little bit more about the context you could provide on the puts and takes to gross margin for the year. What level of structural underlying improvement are you seeing this year from your strategic initiatives? And can you help quantify the more temporary headwinds that you anticipate from China lockdowns and other temporary cost pressures?

THOMAS J. EDWARDS: Brooke, it's Tom here. Thanks for your question. So as we look at FY '23 on gross margin, we expect to continue to see strong benefits from our strategic initiatives to grow margin. And this is driven by things that John mentioned, pricing across certain brands, increased full price sell-through. And growing our accessories business, which in the quarter is up significantly at both Jimmy Choo and Versace. And of course, ultimately, as Asia and China become more normalized and begin to grow then that is also a structural benefit and tailwind to margin.

Some of the takes on the side are really supply chain costs. So we expect them to remain elevated through the year, but the biggest impact is in the first quarter because they compared it against a time frame when they were not as high in the prior year. And then we'll begin to see that moderate through the year. So that's an important fact. Right now, delays are still long, and there's many disruptions. So we are going to be watching that very closely, but that is a negative as we look through the year.

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On the SG&A side, we're looking over time to leverage SG&A as we continue to grow the business. And I think a key part of that is store productivity. As we look at FY '23 we are investing in marketing across our brands. And so we did that in '22. Now we're going to continue that in '23. We think it's critical to support the long-term growth and of course, now we are pivoting to opening more stores in the year. As I mentioned in the prepared remarks, our CapEx for the year is \$300 million. About half of that is on new stores and renovations as we continue to build out our fleet, particularly for Versace and Jimmy Choo around the world and of course, some higher variable costs as we grow revenue.

So overall, I think you'd see a progression through the year on the gross margin side and operating profit as well. And then in terms of China and the -- right now, we're just looking at it as Q1 is the largest impact. As John mentioned, as you can read in the press, Shanghai is beginning the reopening. But we do believe that, that will be a measured process and still believe that in Q2, it will be down 20% in China across the group. But after that, have a more normal situation.

OPERATOR: Our next question comes from the line of Simeon Siegel with BMO Capital Markets.

SIMEON AVRAM SIEGEL, ANALYST, BMO CAPITAL MARKETS EQUITY RESEARCH: Could you just -- I know you spoke about it a bit, can you just elaborate on the comment that inventory constraints held back sales? Just recognizing that we can see the inventory growth on the balance sheet. So maybe could you dig into further? Is it regional allocation seasonal in transit units for installers. Just when we look at that growth, help us understand the comment versus sales? And then, Tom, did you say what the 53rd week impact was to EBIT?

THOMAS J. EDWARDS: Thanks, Simeon, for your question. So on the inventory impact to sales. I would point out that our in-transit inventory was up double in the year. So what you're seeing on the balance sheet includes that and our on-hand was not nearly as high. Also, it's a quarter end number. So as we built and we're building the inventory in order to support future sales, and as John mentioned, as we noted in the remarks, pull-forward deliveries as well as hold more core, that was something that was more building towards the end of the quarter.

And again, most of it or a good portion of it, not actually available for use at that time. Again, we expect to be in a similarly high position versus prior year in the second quarter, and that will begin to sequentially moderate and be more in balance towards the end of the year. And this is perfectly consistent with our expectations and how we planned inventory. We want to make sure we are supporting future sales and our partners and consumers. With regards to the 53rd week in terms of sales, it was about \$70 million. And we noticed that it was, I think, in terms of EPS, in the low teens impact.

OPERATOR: Our next question comes from the line of Jay Sole with UBS.

JAY DANIEL SOLE, EXECUTIVE DIRECTOR AND EQUITY RESEARCH ANALYST OF SOFTLINES & LUXURY, UBS INVESTMENT BANK, RESEARCH DIVISION: John, I'm interested in how long do you think this trend toward dressy event wear, party wear will last? You think it's something that can go through this year to be less into next year? Maybe talk about which brands are best positioned to capitalize maybe on the men's opportunity that you see?

JOHN D. IDOL: Yes. Thank you for the question, Jay. Two things. Number one, I would -- what's exciting about the trend is -- it's the larger portion of the group's business. And if not like that wasn't the case prior to the pandemic, it certainly was. So we lean in across all 3 brands more weighted towards people going out for social and really being more -- a little more dressed up or going back to work, et cetera, or going to work, I should say.

I also want to note that again, prior to the pandemic, we started something at Michael Kors called MKGO. And it's become a very sizable business for us and it's very much a casual-driven business. And I would say that was a bit more ready to wear, and that was fortunate for us that we had started that because as the pandemic hit, as you know, that was a very big piece of business, and we were able to really dial back our more dressed up product and take that dial up. We certainly do not want to walk away from that business. It's a very healthy business for us. It continues to grow.

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And of course, at all 3 of the luxury houses, we have a large sneaker business. And as I think I've talked about on previous calls, sneakers in luxury for certain companies can account for as much as 50% of their overall revenue in footwear. Now we are not quite at those levels at Versace or Jimmy Choo, but it's an enormous opportunity for us when we look at our competitors and how much total revenues they're doing in that category.

So one could only hope that this -- that we have the pandemic behind us and that this level of dress up or this level of social engagement is back and will resume its prepandemic path. Yes, there's probably a little bit of extra lift right now going on. But I don't think it will just all of a sudden go away next year. I think it's here to stay. And I think oddly enough, I think the fashion trend would have changed anyway. I think that while casual wear is certainly something that's been a trend, you see trends in fashion always change and they swing back and forth.

It's quite interesting that the men's business around the globe, and I think that's what you're indicating, is quite strong. And again, I think men are feeling the need to refresh their wardrobes. And again, with the return to work. And you see some of this in some of the more dressed up areas of men's are really coming on strong that again, that -- whether that stays as much through next year or not, I don't know. But it's definitely a very positive trend right now. Thank you very much, Jay.

OPERATOR: Our next question comes from the line of Adrienne Yih with Barclays.

ADRIENNE EUGENIA YIH-TENNANT, MD, SENIOR ECOMMERCE & BRAND RETAILING ANALYST, BARCLAYS BANK PLC, RESEARCH DIVISION: Let me add my congratulations. The product at Kors, in particular, I see that the mouse looks fantastic, so elevated. John, staying on that point, I wanted to ask you about Pinnacle. Luxury price points are up, I don't know, over 30% from pre-pandemic. How much of the pricing gap have you already taken? You just mentioned something about in the fall, taking another price up. And I guess my other question, as you launch Versace and Choo into the accessories, your initial price points, are they up where LV and Chanel might be with the Pinnacle guys? Or are you layering into those? Those are my questions.

JOHN D. IDOL: Thank you, Adrienne. It's an excellent question. So first off, all 3 brands will take price increases in the fall season. Again, it was planned. Versace, as you have noted, absolutely has the opportunity to go up significantly. We think we need a little bit more time to, again, create the credibility with the consumer in leather goods. This company did not start out historically as a leather goods company, it was more a fashion ready-to-wear company. I think you can see what we're doing inside of the construction of the stores. I think you can see what we're doing with the marketing.

We're very excited about the new Greca bag that was introduced in the runway by Donatella and our design teams, and that is going to be a major, major push. And as you know, in this business, with Luxury, all you need is one group to really click, and it can be enormous, enormous opportunity. And so we feel that we're starting to see some of these things happen in Versace.

And so the price point today is probably on the lower end of luxury. And to get to the pinnacle would probably take us a few years. But there's no question we have the opportunity to do that. And quite frankly, we have the authority to do that. And I think the answer is, we will do that over a period of time. Jimmy Choo won't. Jimmy Choo will always be a little bit more, hopefully, I'll call it the middle instead of being where we were the opening. So we do have some way to go.

A little less so in footwear now and a little more in accessories, but probably of all the 3 brands in the group, it's got the least authority in accessories, although we like the trend and the trajectory of the business. We've got a lot more to do, and I've said that, I think, consistently that that's going to be our biggest probably challenge is to make that work. Although some of the things that have happened in the last 3 months are really quite encouraging.

And then lastly, with Michael Kors, we're going to take this brand further upmarket. And that may mean that we distance ourselves from certain competitors, and you're going to look at us differently. They're going to do certain things that we just don't know that we want to be a part of. And really because we're trying to change the perception of what Michael Kors is. And we are -- we're a real designer. There is a man named Michael Kors, who leads us every day of the week. We reside with our collection products in the best luxury stores around the world. You'll hear

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some exciting things at our Investor Day about what we're doing to further reinforce that. And so more to come, and we're going to go upmarket. And as we told Omar earlier, the promotional part of it is not what's going to lead our strategy.

Thank you very much, everyone. And I want to thank you all for joining us today. I apologize. We went over a little bit. It is the year-end call, so we normally do that. Again, we are extremely excited about the results that we delivered for our fiscal 2022. We think fiscal '23 is going to be another very strong year for our company. And we think that we'll have very positive mid-single-digit growth, although that's on a reported basis on a constant currency basis, it would have been double digit. And we will deliver double-digit earnings per share growth. The company reported its highest revenues, gross margin and earnings per share in its history this year. So we believe we have a very strong platform with our 3 luxury brands: Versace, Jimmy Choo and Michael Kors to continue to grow in the luxury market. Thank you for joining us today.

OPERATOR: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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